

**TIRNO-95-D-00066 and TIRNO-00-D-00020
Incurred Cost Audit for Fiscal Years
Ended June 30, 2000 and 2001**

October 2002

Reference Number: 2003-1C-010

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 31, 2002

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: TIRNO-95-D-00066 and TIRNO-00-D-00020 Incurred Cost Audit
for Fiscal Years Ended June 30, 2000 and 2001
(Audit #200310002.003)

The Defense Contract Audit Agency (DCAA) has examined the contractor's February 6, 2002, and February 28, 2002, certified final indirect cost rate proposals and related books and records for the reimbursement of Fiscal Years (FY) 2000 and 2001 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and establish audit-determined indirect cost rates for July 1, 1999, through June 30, 2001. The proposed rates apply primarily to flexibly-priced contracts.

The DCAA questioned some of the proposed FY 2001 intermediate costs and proposed general and administrative (G&A) expenses for FYs 2000 and 2001. For FY 2002, the DCAA made an adjustment of indirect costs for cost center 93 which was inadvertently recorded in cost center 70. Also, the DCAA made an upward adjustment to the FY 2001 material handling indirect cost pool due to an allocation error. Additionally, the contractor erroneously excluded certain unallowable expenses from the claimed G&A base, which resulted in an upward adjustment in FYs 2000 and 2001.

The DCAA considered the contractor's accounting system to be generally adequate for the accumulation, reporting, and billing of costs on government contracts. The DCAA stated that the contractor's proposed indirect rates are acceptable as adjusted by their examination. Additionally, claimed direct costs are acceptable and are provisionally approved pending final acceptance.

The DCAA considers subcontract costs for which they have not yet received assist audit reports to be unresolved. Therefore, the DCAA qualified the results of the audit to the extent that subcontract costs may be questioned as a result of the assist audits.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

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